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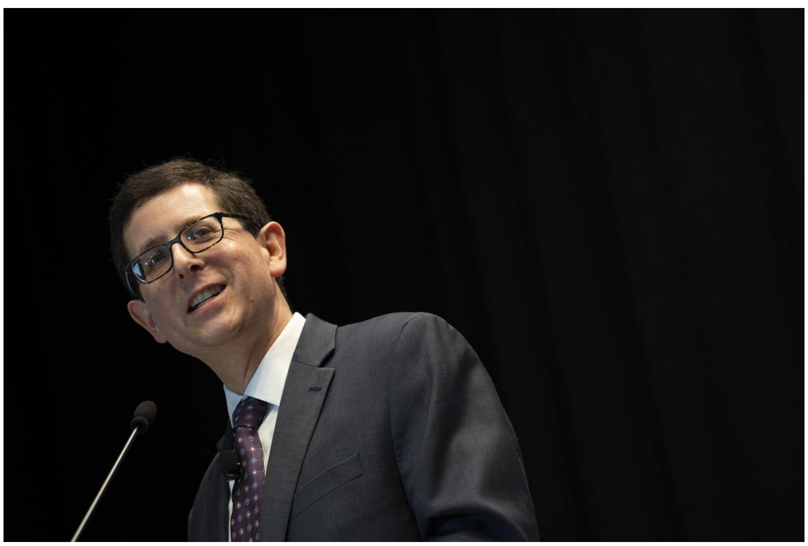
U.S. ECONOMY

CBO Downgrades Long-Term Projections of Economic Growth

Agency says U.S. GDP growth will average 1.6% over next 30 years, vs. 1.9% projected in 2019



Phillip Swagel, director of the Congressional Budget Office, said, 'The U.S. is not facing an immediate fiscal crisis.'

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By Kate Davidson
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WASHINGTON—The U.S. economy is likely to grow more slowly in coming decades and the public debt burden will increase more than previously forecast, due in large part to the coronavirus-induced recession, the Congressional Budget Office said Monday.

The agency released new projections showing weaker growth and significantly more red ink over the next 30 years than it had previously forecast.

The agency now anticipates average annual GDP growth of 1.6% from 2020 to 2050, roughly a full quarter percentage point less than it expected in June 2019, the last time it released long-term economic projections and before the coronavirus pandemic swept across the U.S., triggering a deep recession. Growth averaged 2.5% from 1990 to 2019.

Debt as a share of gross domestic product is forecast to hit 195% by 2050, 45 percentage points higher than the CBO projected in June 2019. The increase is due in large part to surging outlays to combat the pandemic, followed in later years by rising interest costs and higher spending on safety-net programs such as Social Security and Medicare.

Rising debt is at the center of a debate in Washington over how much more support the economy needs to recover from the pandemic. Democrats have said another large aid package, including expanded jobless benefits and aid for states and cities, is essential to help bolster growth and avoid the type of prolonged, lackluster recovery that followed the last recession. Republicans say policy makers need to keep rising debt in check and have called for a narrower bill with targeted aid.

While lower interest rates allow the government to borrow more cheaply, slower growth means it will be harder to reduce the debt burden as a share of the economy.

"The current low interest rates indicate that the debt is manageable for now and that fiscal policy could be used to address national priorities, if the Congress chose to do so," CBO Director Phillip Swagel said on Monday.

The yield on the 10-year Treasury note was around 0.670% on Monday, compared with 1.729% a year ago.

Although the country's long-term fiscal challenges are daunting, "the U.S. is not facing an immediate fiscal crisis," Mr. Swagel said in a statement.

The projections released Monday are an extension of 10-year forecasts the CBO released over the summer, showing debt as a share of annual economic output is on track to hit 100% next year and reach 108.9% by the end of the next decade, the highest since World War II.

The agency expects slower growth over the coming decades as the U.S. crawls out of the deep downturn brought on by the pandemic, which triggered widespread business shutdowns that led to millions of layoffs this year. The CBO said slower labor-force growth, along with less business investment due to higher deficits, will take a toll on growth in the last two decades of its projection window.

The forecasts are highly sensitive to changes in the pace of economic growth and the path of interest rates. Mr. Swagel emphasized that policy makers will have to take action to address the government's long-term fiscal challenges eventually.

Federal spending is projected to rise from 21% of GDP in 2020 to 31% by 2050, driven in large part by the soaring cost of servicing the nation's debt. The aging population and rising health-care costs are also expected to continue pushing up spending on Social Security and Medicare over the next three decades, even after the effects of pandemic spending dissipate.

Persistently weak federal revenue also is expected to contribute significantly to a widening budget gap over the next 30 years, the CBO said. Revenue as a share of GDP is expected to reach 18.6% by 2050, a full percentage point lower than the agency forecast last year.

Those factors will combine to boost annual deficits, driving up government debt over the coming decades.

In the near term, lower interest rates are expected to keep borrowing costs in check, as investor demand for Treasury assets remains robust and the Federal Reserve pledges to keep rates lower for longer. The CBO sees the Fed keeping rates near zero until 2026, and gradually raising its benchmark federal-funds rate to 2.4% by 2030.

"There is no set tipping point at which a fiscal crisis becomes likely or imminent," Mr. Swagel said, "nor is there an identifiable point at which interest costs as a percentage of GDP become unsustainable."

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